Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Robert Huff
Member, Roderick Wright

Thursday, April 22, 2010
9:30 a.m. or Upon Adjournment of Session
Room 3191, State Capitol

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ITEM 1: Vote Only Calendar

1. California State Library – Integrated Library System Replacement Project
Background. The California State Library's (CSL) mission is to serve as a public research library to the Legislative and Executive branches, as well as the general public. To maintain and search its collection of over one million books, magazines, newspapers, government publications, maps, and other publications, the CSL used an Integrated Library System (ILS) software tool. The previous ILS, Data Research Associates Classic System, was discontinued and all service support was terminated in February 2009.

The 2007-08 Budget Act provided funding with CSL to conduct a Request for Proposal for a new software tool to manage the state's library collection. In September 2009, the ExLibris Aleph system replaced the original ILS as the CSL system.

Governor's Proposal. The Governor proposes $173,000 GF in ongoing funding (no new positions) to fund ongoing system costs not covered by the initial warranty, plus funding in subsequent years to cover ongoing operations and maintenance after initial warranty periods expire.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

2. California State Library – Relocation for Infrastructure Renovation, Year Three Capital Outlay Project. The California State Library (CSL) is housed at the Library and Courts building at 914 Capitol Mall. The building was constructed in 1928. The 2005-06 Budget Act provided capital outlay funds for the renovation of the building. The project consists of fire, life safety, infrastructure improvements, and rehabilitation of historically significant architectural elements of the Library and Courts building. The renovation project was supposed to be completed in June 2011, but due to a delay in the construction start date will not finish until March 2012.

Temporary Move. The CSL can not stay in the Library and Courts building while the renovation project is underway. The 60 staffers of the CSL were moved to the nearby Library and Courts II annex at 900 N Street. A separate space was leased in West Sacramento for the CSL's extensive collection of printed materials.

Governor's Budget. The Governor's budget requests $596,000 General Fund for 2010-11 to pay for the third year of lease costs and other costs related to maintaining an offsite venue for the CSL's collection as well as a public reading room in close proximity to the CSL's primary client base of state government agencies and the Legislature.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal.

3. Department of Education – Child Care Program Local Assistance

Background. The 2009 Budget provided $250,000 from the Child Care and Development Fund for the Child Care Characteristics Study. In addition, provisional language was included requiring a contract for a one-time study to identify the characteristics of the children, families, and providers served by subsidized child care contracts and to determine the costs of the care provided. The CDE is required to provide a report to the Department of Social Services, the Department of Finance and the Legislative Analyst no later than September 1, 2010.

April Finance Letter. The Governor is requesting an extension of time for the completion of the Child Care Characteristic Study from September 1, 2010 to March 1, 2011. The proposal includes the following change to budget bill language:

> "13. The State Department of Education shall provide the study on the characteristics of families and costs of care pursuant to Provision 13 of Item 6110-196-0001 of the Budget Act of 2009 to the State Department of Social Services, the Department of Finance, and the Legislative Analyst no later than ~~September 1, 2010~~ March 1, 2011."

Staff Recommendation. Staff recommends that the Subcommittee approve the April Letter extending the due-date of the study.

4. Department of Education – 21st Century Community Learning Centers Program

Background. The 21st Century program supports the creation of community learning centers that provide academic enrichment opportunities during non-school hours for children, particularly students who attend high-poverty and low-performing schools. The program is intended to help students meet state and local student standards in core academic subjects, such as reading and math; offer students a broad array of enrichment activities that can complement their regular academic programs; and offer literacy and other educational services to the families of participating children.

The program is funded with federal funds. As the state learns the amount of federal funds it will receive there may need to be an adjustment to the budget bill estimate.

April Finance Letter. The Governor is requesting a decrease of $4,433,000 to Item 6110-197-0890, Local Assistance, to reflect current estimates of one-time carryover in the federal 21st Century Community Learning Centers program. This change includes the following budget bill language:

> "2. Of the funding provided in this item, ~~$49,096,000~~ $44,663,000 is available from one-time carryover funds from prior years."

Staff Recommendation. Staff recommends that the Subcommittee approve the April Letter with a technical dollar adjustment to the 21st Century program.

ITEM 2: California State Library (6120)

California State Library

(dollars in thousands)

Program	2008-09	2009-10	2010-11
State Library Services	$ 18,046	$ 17,700	$ 18,176
Library Development Services	$ 3,722	$ 6,466	$ 4,855
Local Library Development Services	$ 41,822	$ 44,126	$ 44,626
Information Technology Services	$ 2,270	$ 1,150	$ 1,351
Total	**$ 65,860**	**$ 69,442**	**$ 69,008**

Speakers:

- Stacey Aldrich, California State Librarian
- Mark Whitaker, Legislative Analyst's Office
- Lisa Mierczynski, Department of Finance

1. Bond Funds for the California Cultural and Historical Endowment

California Cultural and Historical Endowment. The California State Library's (Library) purpose is to preserve California's heritage. AB 716 (Firebaugh, 2002), the California Cultural and Historical Endowment Act, established within the Library the California Cultural and Historical Endowment (CCHE). The CCHE is intended to preserve and protect California's cultural and historical resources. The CCHE provides grants for cultural and historical preservation projects, including artifacts, collections, archives, historic structures, and properties.

Survey Requirement. In addition to providing grants, the CCHE has an unfulfilled requirement to conduct a survey of the existing collection of preserved historic and cultural resources in California, and to make recommendations to the Governor and Legislature on statewide policy regarding historic and cultural resource preservation. The survey was supposed to be completed in 2005. The CCHE has yet to begin work on the survey.

Governor's Budget. The Governor's Budget proposes $560,000 million from Proposition 40 bond funds for 2010-11, of which $60,000 would be for state operations and $500,000 for local assistance. This proposal also requests Proposition 40 bond funds over the next four years, which along with budget year total $2.7 million:

- 2010-11: $560,000 – $60,000 for state operations; $500,000 for local assistance
- 2011-12: $656,000 – all for state operations
- 2012-13: $554,000 – all for state operations
- 2013-14: $480,000 – all for state operations
- 2014-15: $450,000 – all for state operations

Staff Comment. The enabling legislation, AB 716 (Firebaugh, 2002), imposes a 5 percent programmatic expenditures cap for Proposition 40 bond funds on the CCHE. Without the $60,000 for state operations from this proposal, the total CCHE state operations since 2003 amount to $6,414,758. The enabling legislation only allows for programmatic expenditures of $6,421,000. The $60,000 proposed in the Governor's budget would take CCHE over the administrative funds cap.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open to provide staff and Department of Finance an opportunity to discuss the administrative funds cap in more detail. Staff will return to the Subcommittee with a recommendation at a later hearing.

7980 CALIFORNIA STUDENT AID COMMISSION

ITEM 3: Student Financial Aid Background

Speaker:

- Judy Heiman, Legislative Analyst's Office

There are multiple different types of financial aid available to low-income students in California. These can be separated into three broad categories:

Federal Aid. There are many types of federal aid available to students. In broad categories, these include grants, loans, and work-study programs. The Free Application for Federal Student Aid (FAFSA) is the core document to determine eligibility for most major federal and state financial aid programs, including CalGrant, Pell Grant, UC and CSU institutional aid, work-study awards, scholarships, and federal student loans.

CalGrants. CalGrants is the primary financial aid program run directly by the State of California. To receive a CalGrant, a student must have been a California resident upon graduating high school, be a U.S. citizen or legal resident, have filled out a FAFSA, be enrolled in college at least part-time, meet minimum GPA requirements, and have financial need based on college costs.

The Cal Grant programs provide awards to needy and academically eligible students and include:

1. CalGrant A & B entitlement programs for graduating high school seniors and recent graduates.
2. CalGrant A & B competitive programs for students who begin college more than eighteen months after graduating from high school.
3. CalGrant C for students attending occupational or vocational programs of at least four months in duration.

Institutional Financial Aid. Institutional financial aid is a financial aid program run by a higher education segment for the benefit of the students attending its institutions. The University of California and California State University both set aside one-third of their tuition revenue for financial aid to their economically disadvantaged students. The UC has recently pledged to increase the income ceiling of the UC Blue and Gold plan to $70,000 annually. The California Community Colleges offer Board of Governor's Waivers to financially needy students, which waives tuition fees entirely.

Role of CSAC. The California Student Aid Commission (CSAC) was created by the Legislature in 1955. CSAC is the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. CSAC administers CalGrants and through the EdFund serves as a guarantor of federal student loans.

California Student Aid Commission General Fund Support

(dollars in millions)	Actual 2007-08	Actual 2008-09	Estimated 2009-10	Proposed 2010-11
Grant Aid Programs	$ 851.7	$ 877.4	$ 999.0	$ 1,099.6
State Operations	$ 13.6	$ 10.8	$ 9.8	$ 10.6
Total	**$ 865.3**	**$ 888.2**	**$ 1,008.8**	**$ 1,172.7**

7980 CALIFORNIA STUDENT AID COMMISSION

ITEM 4: BOG Waivers and FAFSA – Informational Item

Speakers:

- Debbie Frankle Cochrane, The Institute for College Access & Success
- Erik Skinner, California Community Colleges

BOG Waivers. The Board of Governors Waiver (BOG waiver) is a tuition fee waiver provided by community colleges for financially needy students. Approximately 900,000, or 30 percent of, community college students receive a BOG waiver. Only legal California residents are eligible for a BOG waiver.

FAFSA. The Free Application for Federal Student Aid (FAFSA) is a single application for federal financial aid. Through the FAFSA, a student can receive grants, loans, or work-study. A student does not have to accept loans that are offered.

CCC Students Less Likely to Apply for Federal Aid. According to the Institute for College Access & Success, only one third (33 percent) of CCC students apply for federal financial aid, compared to nearly half (46 percent) of community college students in other states. Regardless of family income or many other important characteristics, CCC students are less likely than those in other states to complete the FAFSA. Even full-time students and Pell Grant-eligible students at the CCCs are less likely than those in other states to complete the FAFSA. The Institute for College Access & Success estimates that CCC students leave $500 million in federal aid on the table, aid that help these students attain their educational goals by requiring them to work less and/or take out fewer loans.

Pending Legislation. There is currently pending legislation that would change the way current BOG waiver forms are provided by the community colleges. AB 1997 (Portantino) would do away with blanket authorization for BOG waivers, and instead authorize a community college district to use the simplified form solely for purposes of specified fee waivers provided by the board of governors, solely on a case-by-case basis, and only under certain circumstances.

Staff Comment. The students who receive BOG waivers are low-income people, and due to their limited financial resources many of them are also eligible for federal financial aid. Filling out the FAFSA could allow students who are part-time, because they have to work to receive aid for books and living expenses, receive federal funds to pay for those expenses instead, and thus attend college full-time. Full-time students are more likely to succeed in college.

Staff Recommendation. Informational item, no recommendation.

7980 CALIFORNIA STUDENT AID COMMISSION

ITEM 5: Suspend Competitive CalGrants

Speakers:

- Ian Johnson, Department of Finance
- Judy Heiman, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission

Competitive CalGrants. The Competitive CalGrant is the only CalGrant available to those individuals who graduated from high school more than 18 months prior to applying. Unlike the entitlement CalGrant, the Competitive CalGrant is not offered to all who meet the minimum criteria and apply. There are two types of Competitive CalGrants:

CalGrant A Competitive Awards are for students with a minimum 3.0 GPA who are from low-and middle-income families. These awards help pay tuition and fees at qualifying schools with academic programs that are at least two years in length.

CalGrant B Competitive Awards are for students with a minimum 2.0 GPA who are from disadvantaged and low-income families. These awards can be used for tuition, fees, and access costs at qualifying schools whose programs are at least one year in length. A CalGrant B Competitive Award can only be used for access costs in the first year, including living expenses, transportation, supplies, and books. Beginning with the second year, CalGrant B Competitive Awards can be used to help pay tuition and fees at public or private four-year colleges or other qualifying schools.

Need Exceeds Available Grants. There are 22,500 Competitive CalGrant awards available annually, but the number of applicants far exceeds the number of awards. In 2008-09, there were 162,044 applications for Competitive CalGrants.

Recipients of Competitive CalGrants. The average Competitive CalGrant recipient is about 30 years old, has an income of under $15,000 annually, an average GPA of 3.28, and a family of three. Approximately 75 percent of Competitive CalGrant recipients attend community college.

Segment	Average CalGrant	Maximum Tuition/Fee	Access Grant
California Community College	$ 1,240	$ -	$ 1,551
California State University	$ 3,575	$ 3,048	$ 1,551
University of California	$ 7,565	$ 7,126	$ 1,551
Independent Colleges	$ 8,525	$ 9,708	$ 1,551
Private Career Colleges	$ 7,985	$ 9,708	$ 1,551

Governor's Budget. The Governor proposes to suspend the Competitive CalGrants in 2010-11 for savings of $45.5 million General Fund. This proposal includes budget bill language that states that no new awards would be provided in 2010-11. The proposal also includes trailer bill language that would make any future new Competitive CalGrant awards contingent on appropriation of funds by the Legislature.

Under the Governor's proposal, those people who currently have Competitive CalGrants would keep them, but no new grants would be awarded.

LAO Recommendation. The LAO recommends that the Legislature consider alternatives to suspension of the Competitive CalGrants. For example, the Legislature could:

1. Increase Minimum GPA for Cal Grant B Eligibility to 2.5
2. Limit New Competitive Cal Grant Awards to Stipends Only
3. Eliminate Non-Need-Based Fee Waivers

Staff Comment. The Competitive CalGrant award is the only State program to offer financial aid to those would-be-students who have been out of high school for longer than 18 months. Without Competitive CalGrants these students will find it harder to afford higher education. Instead of suspending the Competitive CalGrant program, the Subcommittee may wish to consider a modified Competitive CalGrant program as a cost-saving measure, per the LAO's recommendation.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open until after May Revise.

7980 CALIFORNIA STUDENT AID COMMISSION

ITEM 6: Freeze All CalGrant Levels

Speakers:

- Ian Johnson, Department of Finance
- Judy Heiman, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission

CalGrant Increases. Under current practice, as the higher education segments raise student fees, the CalGrant awards increase to cover those student fee increases. Also, income eligibility levels are recalculated annually with a cost-of-living adjustment (COLA).

Governor's Budget. The Governor's Budget contains a two-part proposal on CalGrants:

1. Freeze all awards at 2009-10 level: savings of $78 million
2. Freeze income eligibility at 2009-10 level: savings of $1 million

This reduction is part of the Governor's "trigger" cuts that would take place if California does not receive the additional federal funds assumed in the Governor's Budget.

Staff Comment. If the CalGrant levels are frozen, any future fee increases must be covered by the student. Currently, if tuition is increased, the CalGrant award increases to cover the increased fee amount. Freezing the award level would place financial burden on very low-income students whenever university fees were raised.

If the Legislature accepts the Governor's proposal to freeze award levels, the 15 percent UC fee increase that has been approved by the UC Regents and goes into effect for the 2010-11 academic year will not be covered by the CalGrant awards. Also, the 10 percent CSU fee increase assumed by the Governor's budget but not yet approved by the CSU Board of Trustees would not be covered by CalGrants.

Student Fees for Resident Undergraduates

	2006-07	2007-08	2008-09	2009-10	2010-11
University of California	$ 6,141	$ 6,636	$ 7,126	$ 8,958	$ 10,302
California State University	$ 2,520	$ 2,772	$ 3,048	$ 4,026	$ 4,429
California Community Colleges*	$ 690	$ 600	$ 600	$ 780	$ 780

**For full time student taking 30 units*

Staff Recommendation. Staff recommends that the Subcommittee hold this item open until after May Revise.

7980 CALIFORNIA STUDENT AID COMMISSION

ITEM 7: CalGrant Pilot Program Trailer Bill

Speakers:

- Ian Johnson, Department of Finance
- Judy Heiman, Legislative Analyst's Office
- Diana Fuentes-Michel, California Student Aid Commission

Background. The California Student Aid Commission (CSAC) administers a variety of student financial aid grant and loan programs, including several different CalGrant programs. CalGrants provide for tuition and fees up a maximum of $9,708 per year (for students attending private institutions) for four years. An additional annual stipend of $1,551 is available for CalGrant B recipients. The CalGrant programs provide awards to needy and academically eligible students and include:

4. CalGrant A & B entitlement programs for graduating high school seniors and recent graduates.
5. CalGrant A & B competitive programs for students who begin college more than eighteen months after graduating from high school.
6. CalGrant C for students attending occupational or vocational programs of at least four months in duration.

Decentralization Pilot Program. AB 187 (Committee on Budget, 2009) created a pilot program to decentralize financial aid programs administered by the California Student Aid Commission (CSAC) and granted authority for up to 35 qualifying institutions to voluntarily administer award grants under the CalGrant A and B Entitlement Programs and the California Community College Transfer CalGrant Entitlement Program. Specifically, the University of California (UC), the California State University (CSU) and the California Community Colleges (CCC) would participate in a pilot program to administer CalGrant entitlement awards for students attending the respective institutions. The Regents of the University of California, the Board of Trustees of the California State University, and the Board of Governors of the California Community Colleges would select qualifying campuses from within their respective segments to apply for participation in the pilot program.

AB 187 prohibits CSAC from implementing the pilot alternative delivery system until prescribed conditions are met, including receiving commitments from at least 30, but not more than 35, qualifying institutions electing to participate in the alternative delivery system and to pay the costs associated with developing and implementing the pilot alternative delivery system.

Regulations. AB 187 requires CSAC to develop regulations for the program (emergency regulations by June 20, 2010). AB 187 requires the commission to adopt regulations establishing a pilot program for an alternative CalGrant delivery system under which a qualifying institution, if it elects to participate and meets specified requirements, would be authorized to voluntarily administer award grants under the CalGrant A and B

Entitlement Programs and the California Community College Transfer CalGrant Entitlement Program.

Awards. For 2009-10, an estimated 292,000 CalGrant new and renewal awards were offered to students. For 2009-10, CSAC estimates that the General Fund will provide approximately $1,069 million in support for the CalGrant programs.

Trailer bill. The Governor's Budget includes trailer bill language that makes changes to the CalGrant's pilot project language. The primary changes are:

1. Eliminate the requirement that a minimum of 30 institutions have to participate to start the pilot. Keeps the requirement that the pilot include no more than 35 institutions.
2. Eliminate the requirement that the California Student Aid Commission approve a qualifying institution's application to participate in the pilot program. Instead, institutions would submit an application to the Commission certifying their compliance with program requirements and the submission of the application would be deemed sufficient to begin the awarding of CalGrants.
3. Clarifies that only the administrative costs associated with the pilot program are to be paid by the participating institutions.

Staff Comments. Currently, because the pilot project regulations are not complete, no institutions have volunteered to participate in the pilot program. By allowing a lower number of institutions to participate, it is possible that one or more of the higher education segments will not participate in the pilot project at all.

CSAC is currently developing regulations for the pilot project. All institutions participating in the pilot project must abide by the CSAC regulations for the pilot project. In regards to the regulations, having CSAC approve each participating institution's application separately may not be necessary.

The language of AB 187 was somewhat ambiguous as to which expenditures the institutions would be responsible for in the CalGrant pilot program. AB 187 stated that "all costs associated with developing, implementing, maintaining, and improving" the pilot program would be covered by the participating institutions. This could be read to mean that the institutions were supposed to cover the actual cost of the CalGrant. The trailer bill language clarifies that the institutions cover only the administrative costs.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open until after May Revise.

7980 CALIFORNIA STUDENT AID COMMISSION

ITEM 8: Sale of EdFund Update – Informational Item

Speaker:

- Lynn Podesto, Department of Finance

EdFund Background. The EdFund is a statutorily created auxiliary organization of the California Student Aid Commission that administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students do not "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

The Student Aid and Fiscal Responsibility Act. On March 21, 2010, U.S. Congress passed H.R. 4872, The Student Aid and Fiscal Responsibility Act, which makes significant changes to the federal student loan process. HR 4872 converts all <u>new</u> federal student lending to the Direct Loan program. Beginning July 1, 2010, all new federal student loans will be originated through the Direct Loan program, instead of through the federally-guaranteed student loan program. The Direct Loan program has the U.S. Treasury make direct loans to the student, rather than having banks loan the funds and the State guarantee the loan if the student defaults.

Impact of the Student Aid and Fiscal Responsibility Act on the EdFund. Colleges and universities which offer student loan programs have a choice between a variety of FFELP "guarantors" (EdFund is one of several guaranty agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFund, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guaranty marketplace.

2007-08 Budget Act. SB 89, a 2007-08 Budget trailer bill, authorized the sale of the EdFund. At the time, the sale was estimated produce $1 billion for the General Fund.

Use of Funds. On March 23, 2010, the Senate Budget Committee received a letter from CSAC to the Department of Finance, stating allegations of improper use of funds by the EdFund. The letter outlines $355,000 in expenditures from the off-budget Student Loan Operating Fund. Department of Finance responded on April 13, 2010 directing the Office of State Audits and Evaluations (OSAE) to investigate the allegations.

Status of EdFund Sale. Currently, the Department of Finance has issued the Request for Qualifications for potential buyers of the EdFund. Responses were received during the fall of 2009. Final bids for the sale of the EdFund were due on April 15, 2010.

Staff Comment. Informational item only.

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ITEM 9: Child Care and Development Background

Speaker:

- Rachel Ehlers, Legislative Analyst's Office

Under current law, the state makes subsidized child care services available to:

1. Families on public assistance and participating in work or job readiness programs
2. Families transitioning off public assistance programs
3. Other families with exceptional financial need

CalWORKs Child Care. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE), depending upon the "stage" of public assistance or transition the family is in. Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE.

Stage 2 Child Care. Families receiving Stage 2 child care services are either (1) receiving a cash public assistance payment (and are deemed "stabilized") or (2) in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The State allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Stage 3 Child Care. If a family is receiving Stage 3 child care services, they have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act.

Non-CalWORKs Child Care Programs. In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of State Median Income (SMI) relative to family size. Because the number of eligible low-income families exceeds available child care slots, waiting lists for this care are common.

Child care providers are paid through either (1) direct contracts with CDE or (2) vouchers through the Alternative Payment Program.

- *Direct Contractors* receive funding from the state at a Standard Reimbursement Rate (SRR), which pays for a fixed number of child care "slots." These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.

- *Alternative Payment Programs (APs)* act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

2010-11 Budget. The Governor's proposal for the 2010-11 budget provides $2.78 billion to support approximately 415,000 children in the state's subsidized child care and preschool systems. This includes $444 million for CalWORKs Stage 1 child care, run by DSS, and $2.3 billion for child care programs run by CDE. The proposed amount represents a decrease of approximately $316 million from the revised 2009-10 expenditure level ($213 million of this decrease is to CDE-run programs). Of the amount proposed for all child development programs at CDE, 30 percent of the funding will be spent on current and former CalWORKs recipients. Please see the next page for a detailed budget chart.

ARRA Funds. Both CalWORKs and non-CalWORKs programs are funded with a combination of Proposition 98 and federal Child Care & Development Fund monies. In the 2009-10 Budget Act, as well as the Governor's 2010-11 budget proposal, these programs also receive one-time funds from the American Recovery and Reinvestment Act (ARRA) that total $110 million for each year.

California Child Care and Development Programs

2010–11 (Dollars in Millions)

	2008–09 Actual	2009–10 Revised	2010–11 Proposed	Change From 2009–10	
				Amount	Percent
CalWORKs Child Care					
Stage 1	$616	$547	$444	–$103[a]	–18.8%
Stage 2[b]	505	476	436	–41	–8.5
Stage 3	418	409	262	–147	–36.0
Subtotals	($1,539)	($1,432)	($1,141)	(–$291)	(–20.3%)
Non–CalWORKs Child Care					
General child care	$780	$797	$794	–$3	–0.4%
Other child care programs	329	321	303	–18	–5.6
Subtotals	($1,109)	($1,118)	($1,097)	(–$21)	(–1.9%)
State Preschool	$429	$439	$437	–$2	–0.4%
Support Programs	106	109	106	–2	–2.2
Totals	**$3,183**	**$3,098**	**$2,782**	**–$316**	**–10.2%**
State Funds					
Proposition 98	$1,690	$1,824	$1,677	–$147	–8.1%
Non–Proposition 98	28	29	28	–2	–5.3
Other state funds[c]	339	66	—	–66	–100.0
Federal Funds					
Child Care and Development Fund	$528	$541	$540	–$1	–0.1%
TANF[d]	598	528	427	–101[a]	–19.2
ARRA[e]	—	110	110	—	—

a Includes $47 million transferred to county CalWORKs fund, where counties have the option to continue using the funds for child care or another CalWORKs activity.

b Includes funding for centers run by California Community Colleges.

c Includes prior–year Proposition 98 carryover and redirected Child Care Facilities Revolving Fund monies.

d Temporary Assistance for Needy Families.

e American Recovery and Reinvestment Act.

6110 CALIFORNIA DEPARTMENT OF EDUCATION

ITEM 10: Reduction in Provider Reimbursement Rate Ceilings

Speakers:

- Pete Cervinka, Department of Social Services
- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

Current Provider Reimbursement Rate Ceilings. The provider reimbursement rate ceiling is determined by a Regional Market Rate (RMR) survey, which is conducted every two years. The most recent survey was conducted in 2009. To determine the reimbursement rate ceiling, the survey looks at the amount charged by a sample of private child care providers in each county. Currently, the maximum subsidized child care reimbursement rate that licensed child care providers may receive is the 85^{th} percentile of market rates based on the 2005 RMR survey, while license-exempt providers receive up to 90 percent of what the licensed providers receive.

Governor's Proposal. The Governor's Budget proposes to reduce the maximum amount state vouchers will reimburse licensed child care providers from the 85^{th} percentile to 75^{th} percentile of the 2005 RMR survey, for a savings of **$19 million**. The Governor also proposes to lower the reimbursement rate ceiling for license-exempt providers from 90 percent to 70 percent of the licensed provider reimbursement rate ceiling, for a savings of **$113 million**. In combination, these rate ceiling reductions generate **a total of $132 million** in savings ($77 million Proposition 98). Under this proposal, the state would continue to pay for the same number of child care slots, but the maximum rate ceiling it would pay would be lower for each slot.

CalWORKs Stage 1 (Department of Social Services)

- Centers: $1.6 million
- Family Child Care Homes: $1.3 million
- License-Exempt: $51.9 million

TOTAL Stage 1: $54.8 million

CalWORKs Stage 2 (Department of Education)

- Centers: $2.1 million
- Family Child Care Homes: $1.8 million
- License-Exempt: $33.1 million

TOTAL Stage 2: $37 million

CalWORKs Stage 3 (Department of Education)

- Centers: $2.8 million
- Family Child Care Homes: $2 million
- License-Exempt: $23.3 million

TOTAL Stage 3: $28.1 million

Alternative Payment Program

- Centers: $1.9 million
- Family Child Care Homes: $1.2 million
- License-Exempt: $8.9 million

TOTAL Alternative Payment Program: $12 million

Stage 1 Child Care. Please note that the Stage 1 reductions proposed by the Governor are handled by Senate Budget Subcommittee 3. Please see Subcommittee 3 agendas for more information. The Stage 1 rate reduction was heard (and left open) at the February 2, 2010, full Budget Committee Special Session hearing.

LAO Recommendation. The LAO recommends that the Legislature develop a provider reimbursement policy that reflects current market conditions and, given the state's fiscal status, is affordable. Specifically, the LAO recommends the Legislature use the 2009 RMR survey and set provider reimbursement ceilings at whatever level is roughly comparable to current-law rates. They estimate this would be at about the 60th percentile.

The LAO thinks that reimbursing license-exempt providers at 70 percent of the licensed rate also seems reasonable, as these providers have lower overhead costs and might be of lower quality (having not met licensing requirements). Also, California's current standard for license-exempt reimbursements is significantly higher than in other states, where the license-exempt rates typically range between 50 percent and 70 percent of the licensed rate. Because they have lower overhead costs and might be of lower quality, the LAO recommends the Legislature reduce reimbursement rates for license-exempt child care providers from 90 percent to 70 percent of the licensed provider rate. Because the LAO's recommended rate for direct contractor providers is higher compared to the Governor's proposal, license-exempt providers would still be reimbursed at higher rates under the LAO's proposal. As such, the state would also realize fewer savings from this change; approximately $80 million ($45 million Proposition 98) compared to the Governor's $113 million.

Federal Guideline. As a condition to receiving federal child care funds, states must agree to provide "equal access" to child care. Although "equal access" is not clearly defined in federal law, one guideline suggested is setting reimbursement ceilings at the 75th percentile of the market rate. The federal government also recommends that payment rates "reflect the child care market." Should California be deemed to not provide equal access, there is a possibility that federal support for child care programs will be reduced or lost.

Impact on Families. If the provider reimbursement rate ceiling is lowered, some families will have to pay more for child care. Families selecting providers that charge more than the state reimbursement ceiling have to make up the difference in price. If a family cannot afford to pay that difference, they will have to find a provider that charges at or below the maximum state reimbursement rate, meaning they will have fewer providers to choose from.

Staff Recommendation. Staff recommends the Subcommittee leave this item open.

This chart shows a sample of counties and how the RMR ceiling would change for those counties under the Governor's proposal to drop ceilings from the 85th percentile to the 75th percentile using the 2005 RMR survey.

Comparison of Regional Market Rate Survey Data

Monthly Full Time Preschool Rates at Child Care Centers

	2005 85th Percentile	2005 75th percentile (Governor's Proposal)			2009 50th Percentile (DRAFT Survey Results)		
	Current Law Rate Ceiling	Rate	Change from Current Law		Rate	Change from Current Law	
County			dollar	percent		dollar	percent
ALAMEDA	$859	$777	-$82	-10%	$758	-$101	-12%
CALAVERAS	$648	$566	-$83	-13%	$587	-$61	-9%
CONTRA COSTA	$830	$738	-$92	-11%	$707	-$124	-15%
FRESNO	$661	$570	-$91	-14%	$578	-$82	-12%
KERN	$674	$578	-$96	-14%	$564	-$110	-16%
LOS ANGELES	$744	$660	-$84	-11%	$635	-$109	-15%
MARIN	$1,101	$960	-$141	-13%	$922	-$179	-16%
MERCED	$643	$563	-$80	-12%	$547	-$96	-15%
ORANGE	$832	$742	-$90	-11%	$689	-$143	-17%
PLACER	$737	$683	-$54	-7%	$633	-$105	-14%
RIVERSIDE	$684	$597	-$87	-13%	$581	-$102	-15%
SACRAMENTO	$686	$608	-$78	-11%	$587	-$99	-14%
SAN BERNARDINO	$676	$581	-$94	-14%	$580	-$96	-14%
SAN DIEGO	$755	$680	-$75	-10%	$640	-$115	-15%
SAN FRANCISCO	$974	$881	-$93	-10%	$898	-$76	-8%
SAN JOAQUIN	$680	$582	-$98	-14%	$572	-$108	-16%
SUTTER	$643	$563	-$80	-12%	$547	-$96	-15%

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ITEM 11: Reduction to CalWORKs Stage 3 Child Care

Speakers:

- Pete Cervinka, Department of Social Services
- Sara Swan, Department of Finance
- Rachel Ehlers, Legislative Analyst's Office
- Camille Maben, California Department of Education

Governor's Proposal. The Governor proposes to reduce the CalWORKs Stage 3 program by **$123 million** and eliminate about 18,000, or one-third, of all Stage 3 child care slots.

The administration estimates roughly 11,000 of these slots could be eliminated by not backfilling for normal Stage 3 attrition and 7,000 children would have to be disenrolled from current Stage 3 placements, with lower-income families receiving priority for maintaining care.

The Governor's proposal also includes trailer bill language that would prioritize which families lose subsidized child care first. The families disenrolled first from Stage 3 would be in the reverse order from the enrollment priority order for non-CalWORKs programs.

Waiting List for Subsidized Care Long. Presumably, the displaced CalWORKs families would instead seek care from the state's subsidized non-CalWORKs programs. However, because roughly 200,000 children are on waiting lists for non-CalWORKs slots, the families displaced by the Stage 3 change would not be guaranteed subsidized care. There are concerns about what this might mean for transitioning Stage 2 families who have recently worked their way off of cash aid and likely earn well below the State Median Income (SMI). Any CalWORKs family losing care could be at risk of going back to cash aid if they suddenly lose their child care.

LAO Recommendation. The LAO recommends rejecting the Governor's Stage 3 proposal. Instead, the LAO recommends the Legislature achieve savings by lowering eligibility criteria for Stage 3 subsidized child care from 75 percent to 60 percent of the SMI. This would mean the highest income Stage 3 families would lose care, but services for the lowest income families would be protected. The LAO estimates approximately 4,000 children currently receiving Stage 3 care are from families who earn more than 60 percent of the SMI (60 percent of the SMI equates to a monthly income of about $3,350 for a family of four.) The LAO estimates this change would lead to about $15 million in Proposition 98 savings in 2010–11.

The LAO also recommends the Legislature make the same change to the eligibility ceiling for non-CalWORKs subsidized child care. They estimate this would displace approximately 14,000 children from the highest income families currently being served and reduce associated costs by $115 million. Of this amount, they recommend the state capture $60 million in savings while redirecting $55 million in freed-up funds to serve more of the neediest children. This redirection would expand access for 5,000 to 6,000 children from the lowest income families currently waiting for care. They believe such a redirection would be appropriate because the unmet demand from very low-income families for non-CalWORKs care is so high.

Staff Recommendation. Staff recommends the Subcommittee hold this item open until after May Revise.

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ITEM 12: Negative COLA

Speakers:

- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

Background. Current law requires that a COLA be applied annually to revenue limits and most K-12, child care programs, and community colleges categorical programs in order to reflect the higher costs that schools face due to inflation.

The statutory K-12 COLA is based on an index that measures changes in costs experienced by state and local governments. School districts generally use COLAs to provide annual increases to employee salaries and address cost increases for local operating expenses, including employee benefits, utilities, materials, and supplies.

Due to the state budget crisis, the state has not provided COLAs in recent years – foregoing K-12 COLAs of 5.66 in 2008-09 and 4.25 percent in 2009-10.

Governor's Budget. The Governor's budget proposes a COLA of -0.38 percent to child care providers, for a savings of $6 million.

LAO Recommendation. The LAO recommends rejecting the Governor's proposal. According to the LAO, adjusting program funding for a negative COLA after two consecutive years of the state not providing positive COLAs is unreasonable.

Staff Recommendation. Staff recommends the Subcommittee hold this item open until after May Revise.

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ITEM 13: Migrant Child Care

Speakers:

- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

Program Background. Migrant child care and development programs serve the children of agricultural workers while their parents are at work. The centers are open for varying lengths of time during the year, depending largely on the harvest activities in the area. In addition to these center-based programs, the Migrant Alternative Payment Network Program allows eligibility and funding for services that follow migrant families as they move from place to place to find work in the Central Valley. To be eligible for the program, a family must not have permanent, year-round housing.

LAO Recommendation. The LAO's analysis reveals that the state's child care program for children of agricultural workers consistently has unspent funds at the end of the year. According to CDE, this is due in part to the changing demographics of the state, with a trend toward fewer eligible migrant families. As a result of less participation, the LAO believes ongoing funding for the program can be reduced by $3.5 million (from $36 million to $32.5 million) without affecting services or slots.

Staff Recommendation. Staff recommends that the Subcommittee hold this item open until after May Revise.

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ITEM 14: After School Education and Safety – LAO Proposal

Speakers:

- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

Program Background. The After School Education and Safety (ASES) Program is the result of the 2002 voter-approved initiative, Proposition 49. This proposition amended California Education Code (EC) 8482 to expand and rename the former Before and After School Learning and Safe Neighborhood Partnerships Program.

The ASES Program funds the establishment of local after school education and enrichment programs. These programs are created through partnerships between schools and local community resources to provide literacy, academic enrichment and safe constructive alternatives for students in kindergarten through ninth grade (K-9). Approximately 400,000 students participate in ASES.

Funding is designed to: (1) maintain existing before and after school program funding; and (2) provide eligibility to all elementary and middle schools that submit quality applications throughout California. The current funding level for the ASES program is $550 million.

LAO Recommendation. The LAO recommends the Legislature ask voters to repeal the existing restriction that roughly $550 million in K-12 funds be used solely for after school services. Specifically, the LAO recommends the Legislature place a measure on the ballot to repeal Proposition 49 (which created the automatic ASES funding requirement), and, if it passes, to add the ASES program into the K-12 flex item. Relaxing restrictions on the ASES program would provide districts with discretion over about $550 million in previously restricted categorical funds.

Staff Recommendation. Staff recommends the Subcommittee hold this item open until after May Revise.

ITEM 15: ARRA Funds Update

Speaker:

- Camille Maben, California Department of Education

American Recovery and Reinvestment Act. On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act (ARRA) of 2009, H.R. 1. The spending and tax-cut plan is intended to help stabilize state budgets and spur economic growth. The ARRA commits a total of $787 billion nationwide. The funding provides: (1) $330 billion in aid to the states, (2) about $170 billion for various federal projects and assistance for other non-state programs, and (3) $287 billion for tax relief.

Funds for California. During 2009, California received $20.3 billion in ARRA funds. Of this amount $17.6 million was in grants, $2.2 billion in contracts, and $554 million in loans.

Funds for Childcare. A $220 million supplemental grant for CCDF was received by California for child care. These funds are allocated as shown in the following chart:

Child Development Programs ARRA Funds

(dollars in thousands)

	2009-10	2010-11
General Child Care	$ 17,347	$ 17,347
Migrant Centers	$ 0	$ 3,087
Alternative Payment	$ 18,830	$ 15,743
Stage 2 CalWORKs	$ 36,272	$ 36,272
Stage 3 CalWORKs	$ 18,905	$ 18,905
Quality Improvement	$ 18,783	$ 18,783
Total	$ 110,137	$ 110,137

Staff Recommendation. Informational item, no recommendation.

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ITEM 16: Quality Improvement Program

Speakers:

- Rachel Ehlers, Legislative Analyst's Office
- Sara Swan, Department of Finance
- Camille Maben, California Department of Education

Federal Requirement. The federal government requires that four percent of the federal Child Care and Development Fund (CCDF) dollars that California receives must be spent on child care quality improvement. The quality improvement plan includes the federal mandates for infant/toddler capacity building, resource and referral programs, and school-age capacity building.

2009-10 Budget. The *2009-10 Budget Act* provides $96.6 million for the Quality Improvement Program. Of this amount, $18.7 million is ARRA funds. However, the federal requirement to spend four percent of the CCDF on quality improvement amounts to $63.1 million.

Advisory Committee. SB 1629 (Steinberg, 2008) established a 13-member California Early Learning Quality Improvement System Advisory Committee (Advisory Committee) and called for the creation of the new quality rating and improvement system for child care. The goal of the quality rating and improvement system will be to increase the likelihood that more programs will have the features shown to improve children's readiness for school and for life.

Specifically, the Advisory Committee is to report to the Legislature and the Governor by December 2010 on:

1. An assessment and analysis of the existing early care and education infrastructure, including other state and local early learning quality improvement systems;
2. The development of an early learning quality rating scale for child development programs, including preschool as well as programs for infants and toddlers;
3. The development of a funding model aligned with the quality rating scale for child care and development programs; and
4. Recommendations on how local, state, federal, and private resources can best be utilized to complement a statewide funding model as part of a comprehensive effort to improve the state's child care and development system.

Staff Comment. The state is spending more than the minimum required on quality improvement by $14.7 million. These are funds that could potentially be redirected to backfill for some of the cuts to child care services.

Staff Recommendation. Staff recommends that the Subcommittee direct the Legislative Analyst's Office to develop a recommendation for $14 million in cuts to the Quality Improvement Program that could be redirected to other child care services.

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ITEM 17: Preschool Assessment

Speakers:

- Sara Swan, Department of Finance
- Camille Maben, California Department of Education
- Rachel Ehlers, Legislative Analyst's Office

Importance of Preschool. A RAND report finds that at kindergarten entry, California children begin school with varying levels of readiness, in terms of cognitive and non-cognitive skills that have been shown to be predictive of later school success. Socioeconomically disadvantaged children enter kindergarten with lower levels of readiness than their more advantaged peers. By second and third grades, these readiness gaps are manifested in achievement differences in statewide standardized tests.

Preschool preparation can lower these achievement differences. There is an accumulation of convincing evidence from research that young children are more capable learners than current practices reflect and that good education experiences in the preschool years can have a positive impact on school learning.

Current Preschool Programs. The primary options for children attending preschool are public preschool programs, federally funded Head Start programs, or private preschool programs. Approximately 60 percent of California's young children attend public preschool or Head Start programs prior to kindergarten.

Preschool Data Collection. The General Child Care program has been in existence since 1943, and the State Preschool program since 1966, without an evaluation system that gives the department and the public a clear sense of its classroom accomplishments. California should be able to provide its own data in order to show the program's impact and to enable the improvement of staff development programs based on program success.

Staff Proposal. Staff proposes that the Subcommittee consider an assessment of how learning services are delivered to preschoolers in California. This assessment should consist of data collection and analysis focusing on State Preschool children and classrooms and on children of preschool age (three to five) enrolled in Title 5 regulated children's center classrooms (General Child Care) and their classrooms, and it will consist of a stratified random sample sufficient to establish the reliability and validity of the data. The purposes of the data collection and analysis will be to provide information on the general strengths and weaknesses of these classrooms in basic child development areas such as cognition, language, and math and to track child change over the course of the school year in these same areas. These data will provide evaluation information to the department to assist it in targeting staff development resources and will provide information to the Legislature on the return on its investment.

Staff Recommendation. Staff recommends that the Subcommittee appropriate $200,000 one time Proposition 98 funds for this assessment of preschool program integration and effectiveness.

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ITEM 18: Child Care Case Files

Speakers:

- Camille Maben, California Department of Education

Department Regulations. The CDE Child Care and Development Division develops regulations for child care appeal hearings. Regulations section 18120 states that the CDE is entitled to a copy of the child care case file from the contractor. However, regulations remain silent on the ability of the parent to request a copy of their case file.

Staff Comment. Staff has heard from some constituents, who allege that they were denied access to their own case files at appeals hearings for child care subsidies.

Staff Recommendation. Staff recommends that the Subcommittee hear from the department as to what the current practice for case file access is when appeals hearings for child care subsidies are held. If the Subcommittee concludes that it is not evident that case files are always accessible to the parent at the hearing, staff then recommends that the Subcommittee adopt the following supplemental reporting language:

> On or before March 1, 2011, the California Department of Education shall provide a report to the Joint Legislative Budget Committee on actions taken to ensure that parent(s) have access to their case file in appeals hearings when a Notice of Action has been served to remove the parent(s) child care subsidy.